IDAHO FORECAST DESCRIPTION

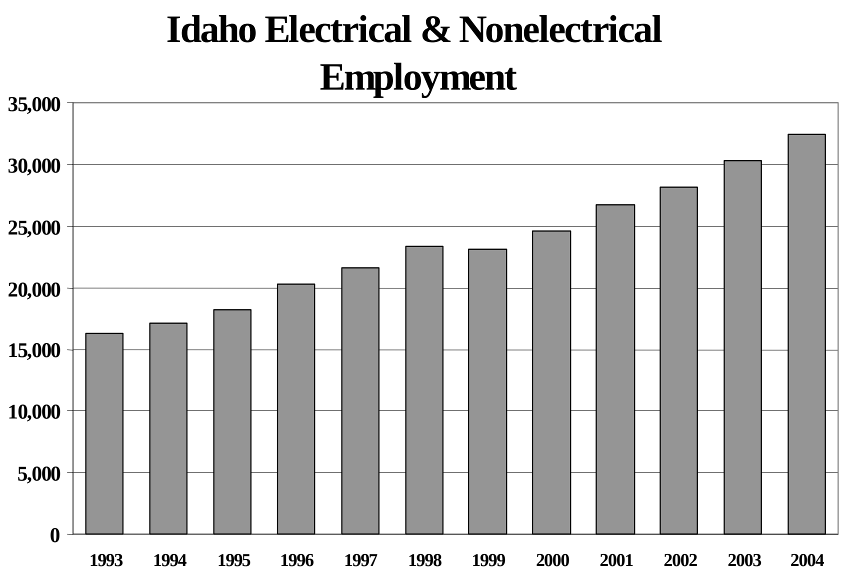
The Forecast Period is the Third Quarter of 2000 to the Fourth Quarter of 2004

The Gem State's economy is expected to shift into a lower gear over the forecast horizon. Last year, Idaho's economy displayed surprising strength by outperforming the forecast released in January 2000. At that time, it was projected that Idaho nonfarm employment would advance 2.1% in 2000, a slight drop from the previous year's estimated 2.7% pace. However, no decline took place. In fact, current data show that nonfarm employment growth actually accelerated slightly, from a revised 3.4% in 1999 to 3.6% in 2000. Part of this increase reflects corrections to original data that underestimated historical growth. In addition, several sectors turned in stronger-than-anticipated performances. The goods-producing sector was boosted by a 6.1% increase in electrical and nonelectrical machinery employment and 4.7% rise in the number of construction jobs. The trade sector's employment advanced 3.3% in 2000, compared to the 2.4% growth predicted last year. Services employment was up a whopping 6.2%.

The combination of faster employment and wage growth caused Idaho personal income to rise more rapidly than expected in 2000. The average wage advanced 5.6% last year, which was well above the prediction of 4.2%. As a result, the wages and salaries component of Idaho personal income grew a healthy 9.1% last year. This helped overall Idaho personal income increase 7.6%, which was 2.0 percentage points faster than the 5.6% projected last year. However, the difference between the current estimate for Idaho real personal income versus last year's estimate is smaller because inflation was higher in 2000 than had been originally estimated. The most widely recognized measure of inflation rose approximately 3.4% in 2000, which was more than the 2.3% pace forecasted earlier. Idaho real personal income rose 5.1% in 2000, compared to the original forecast of 3.8%, a difference of 1.3 percentage points.

As was mentioned above, Idaho's economic performance is expected to slow from last year's showing. Idaho nonfarm employment is forecast to rise 2.3% this year, 2.4% next year, 2.4% in 2003, and 2.2% in 2004. However, this is still faster than national employment growth, which is expected to increase 1.1% in 2001, 1.2% in 2002, 2.0% in 2003, and 1.7% in 2004. One of the reasons Idaho out performs the nation is because its manufacturing sector is expected to enjoy robust health while the nation's manufacturing sector sheds jobs. Idaho nominal personal income also advances faster than its national counterpart. However, the difference between these two measures may seem smaller than anticipated given the differences in job growth. This is because the national average annual wage is projected to rise faster than the Idaho average wage in every year of the forecast.

It should be noted that this Idaho economic forecast assumes that the Federal Reserve successfully slows the U.S. economy without plunging it into a recession. While there is a wealth of evidence to suggest that this is the most likely outcome, this result is by no means a given. In order to accomplish this, the nation's central bank would have pull off a rare second-straight soft landing. This maneuver is difficult enough even under the best circumstances. However, current conditions have complicated this policy. A policy misstep or unfortunate combination of factors could result in the economy performing below par. These results would be felt at the local level. Two alternate scenarios of the national economy's performance and their impacts on Idaho have been included.



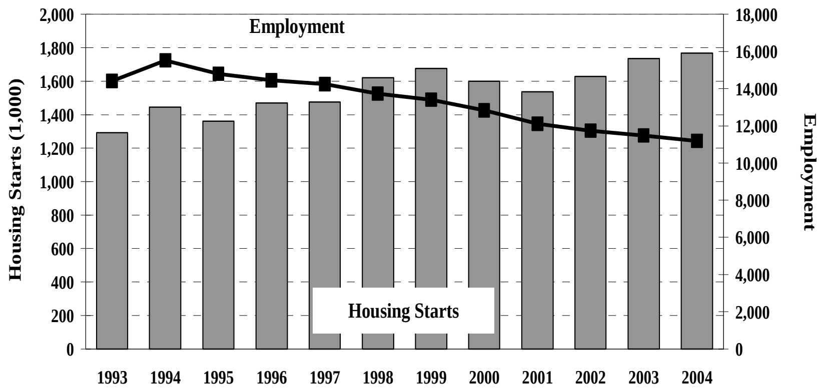
Electrical and Nonelectrical Machinery:

The Gem State's electrical and nonelectrical machinery sector should add more jobs over the forecast period than all of the other manufacturing sectors combined. Specifically, of the 10,455 increase in manufacturing jobs from 2000 to 2004, nearly 8,000 will come from the electrical and nonelectrical machinery sector. This industry got a good jump toward this employment target by growing an estimated 1,400 (6.1%) in 2000. This was a welcome reversal from the previous year where employment dipped. This slight (0.7%) decline was the sector's first drop since 1985. Last years recovery should be just the first installment in a string of strong years. As in the past, the state's high-tech companies will play a large role in fueling Idaho's growth. These companies stand to benefit from the continued demand for their products. For example, production of electronic components jumped nearly 75% in 2000. While it is not expected to match this level of growth over the forecast period, it should continue to post strong gains over the forecast period. This reflects the broadening applications base for electronic components. Once these products were found in only sophisticated and expensive commercial devices. Now, they are essential parts of everyday household appliances. Micron Technology, a world-class manufacturer of computer memory products, should benefit from the strong demand for its products. Micron competes in the world market where it is essentially a price taker. In order for it to be profitable, the company must continually reduce its production costs. This is where the company has excelled. Micron is recognized as the world's lowest cost manufacturer of memory products. This helped the company avoid layoffs during the recent prolonged downturn in memory prices. Its broader product and customer bases also helped it weather the downturn. In order to remain competitive, the company must also continue to grow. It started a $200 million expansion at its Boise campus that will add 500 more jobs, most of which will be in research and development. The future is bright for other Idaho high-tech companies as well. Less than a year after opening the doors of its new Treasure Valley plant, Jabil Circuit, Inc. has announced plans to double its manufacturing space. Company officials explain that the expansion is in response to anticipated industry growth. This expansion will add up to 700 new jobs over the next few years. This would boost employment to about three times its initial level. Jabil began its Idaho operations just two years ago when it acquired the assets (and employees) of Hewlett-Packard's printer formatter manufacturing operations. The sale of these assets reflected Hewlett-Packard's strategy to refocus the Boise site's mission towards research and development and away from manufacturing. As a result of that move, Hewlett-Packard's employment in Idaho has remained near the 4,000 level in recent years. In other high-tech news, none of the 1,200 employees of American Microsystems Incorporated of Pocatello should be affected by the 80 percent buyout of the company by two global investment groups. The majority share of the company was previously owned by GA-TEK, which is a wholly owned subsidiary of Japan Energy Corporation. A few Zilog workers will not be as fortunate. Citing adverse market conditions, about a dozen employees at the company's Nampa plant will lose their jobs.

Idaho electrical and nonelectrical manufacturing employment is expected to rise 9.0% in 2001, 5.4% in 2002, 7.5% in 2003, and 7.2% in 2004.

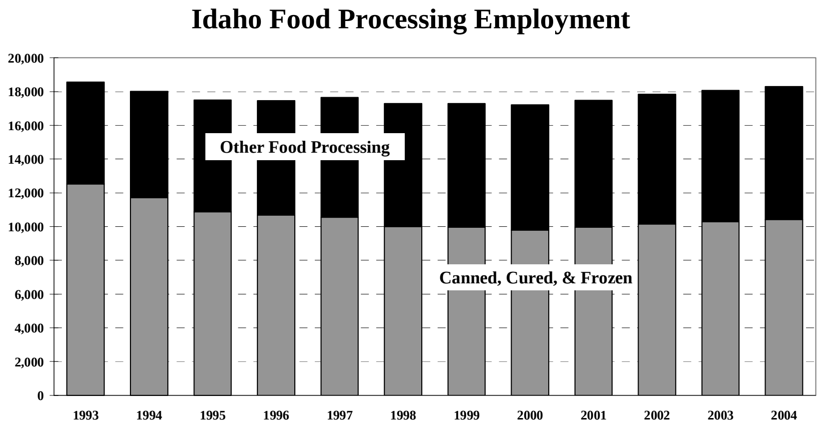
Lumber and Wood Products: As predicted, employment in the state's lumber and wood products sector fell in 2000. In January 2000, it was projected the number of jobs in this sector would slide by about 500 (3.7%). The most current data available show that the aggregate lumber and wood products payroll actually shrank by 574 (4.3%) jobs. This reduction was the largest annual decline since 1995, when employment decreased 4.7%. Last year's disappointing performance reflects an unfortunate combination of negative factors. First, falling product prices plagued this industry through most of the year. *Random Lengths* reported that its composite price index for framing lumber dropped from around $375 per thousand feet in January 2000 to $283 in November 2000. The composite price for structural panels showed promise by rising to nearly $350 per thousand feet in March 2000. However, by November 2000 its price had fallen to $251. These softening prices forced many Idaho mills to curtail their operations. Potlatch Corporation temporarily reduced payrolls by 300 in June 2000. The company also laid off 21 workers at its St. Maries' plywood plant. In July 2000, Regulus Stud Mill's employment fell from 100 to 15 workers. That same month, Louisiana-Pacific shut down its Chilco sawmill and Sandpoint finishing plant, affecting 145 employees. While most of these layoffs were temporary, some were permanent. Potlatch Corporation let go of 140 salaried workers last summer. Crown Pacific closed its 150-employee Coeur d'Alene mill indefinitely in late July 2000. Potlatch shuttered its Jaype Mill near Pierce in August 2000, a move that cost 215 jobs. The Idaho Department of Labor estimates that mill closures or curtailments from May 2000 to September 2000 idled over 1,500 employees. Unfortunately, it appears that low prices may be around a little longer. Part of this outlook reflects the weaker demand caused by the 3.9% drop in national housing starts in 2001. But demand is not the only factor causing lower prices. This industry is awash in supply thanks to excess capacity. One estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. A cause for hope is that Asia, except for Japan, should grow faster than the U.S. economy over the forecast period. Rising fortunes in these countries could help absorb excess supplies. Even when demand picks up, this sector faces other challenges. Most notably, it will be haunted by the uncertainties concerning timber supplies from federal forests. In light of these factors, it does not appear that this sector's job picture will improve in the near future. In fact, Idaho lumber and wood products employment is expected to decline 5.6% in 2001, 3.0% in 2002, 2.2% in 2003, and 2.5% in 2004.

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



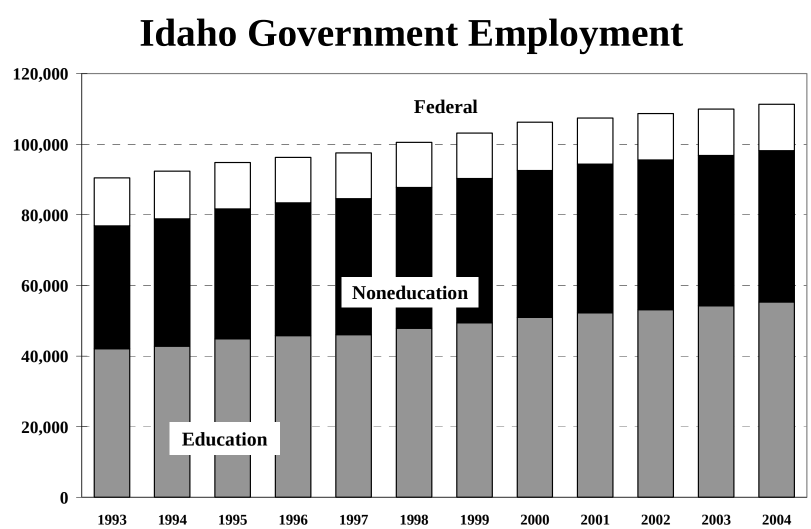
Sources: Standard and Poor's DRI and DFM

Food Processing: Employment in the state's enormous food processing sector shrank by almost 1,300 jobs from 1993 to 1999. While some of this loss was due to business downturns, other factors also played a significant role. For example, J.R. Simplot Company closed one of its two Caldwell, Idaho



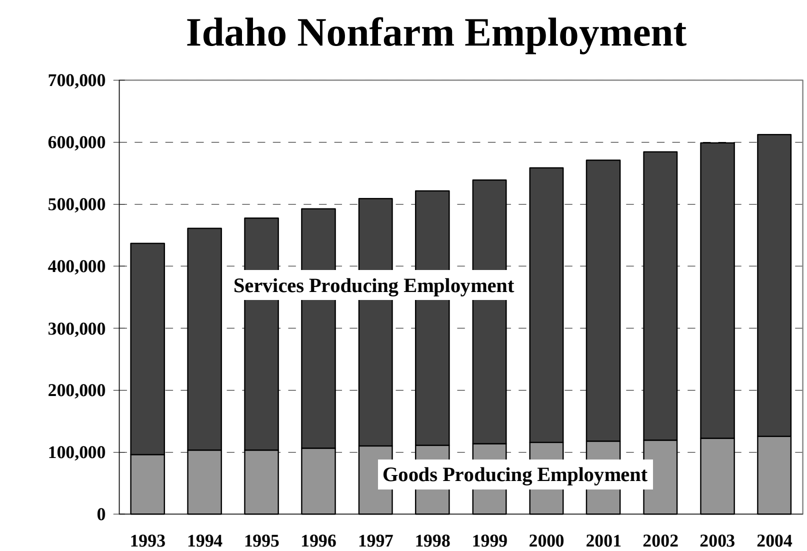
processing plants during this period. Between 300 and 400 jobs were lost as a result of this closure. Another Gem State food processing player, Ore-Ida, reduced its headquarters' staff by about 100 after it sold its food service division to Canadian food processing giant McCain Foods, Ltd. Unfortunately, this was not the last reduction by Ore-Ida. Approximately 400 Idaho jobs were lost in 1999 when H.J. Heinz Company consolidated Ore-Ida Foods Incorporated and Weight Watchers Gourmet Food Company into the new Heinz Frozen Food Company based in Pittsburgh. Not all the impacts of food processing facilities sales were negative. For example, Suprema Specialties of New Jersey purchased the Snake River Cheese Plant near Blackfoot. Beatrice Cheese had been operating the plant, but stopped production late last year. Suprema will take over operation on January 1, 2001. The plant employs 45 workers and processes milk from 450 dairies. Idaho's dairy industry has thrived in recent years. Idaho is the nation's sixth largest producer of milk. The state's dairy herd increased from 179,000 milk cows in 1990 to 318,000 cows in 1999. The expansion of the herd and higher output per cow caused milk production to climb from about 3 billion pounds to nearly 6.5 billion pounds over this period. The value of the milk produced rose from $360 million in 1990 to about $840 million in 1999. Most of the larger dairies are located in the Magic Valley. The state's milk processing industry has expanded along with its dairy herd. From 1995 to 1999, the whole milk equivalent used in Idaho manufactured products jumped over 40.0%, from 3.8 billion pounds to 5.3 billion pounds. Most of this was used to produce American cheese. Glanbia, Inc. is the largest dairy processor in Idaho. It employs over 400 people and has over $400 million in sales per year. Glanbia, Inc. recently completed a $33 million expansion to its Gooding cheese processing plant that can process six million pounds of milk per day. Land O' Lakes also completed a huge expansion to its feed-processing plant in Gooding. The Salmon Valley Cheese Factory plans to produce 10 million pounds of cheese annually, and production could expand further in the near future. <u>Idaho food processing employment should advance 1.5% in 2001, 2.1% in 2002, 1.3% in 2003, and 1.2% in 2004.</u>

Federal, State, and Local Governments: Idaho's state and local government employment growth should slow as Idaho's population growth cools. This should not come as a surprise, given the tight link between government employment and population. This relationship can be seen by reviewing past Idaho employment and population data. The Gem State's population soared from 1,006,734 in 1990 to 1,251,700 in 1999, a 24.3% increase. This jump in population reflected the influx of new citizens into Idaho. The state,

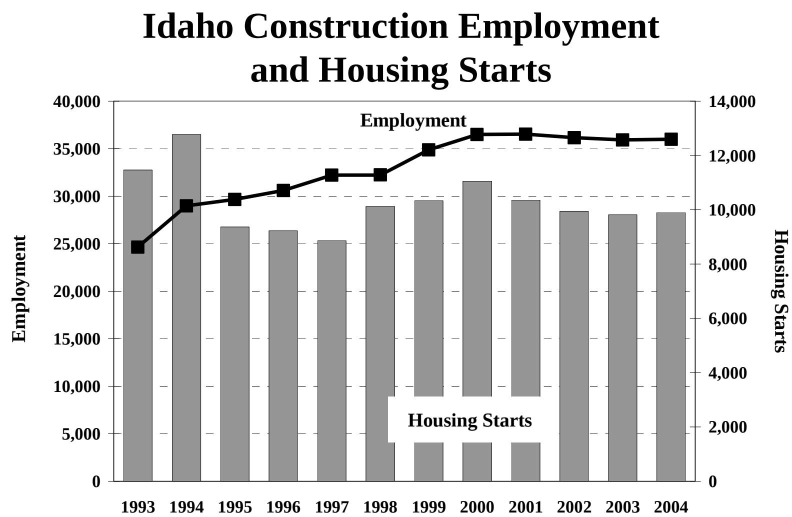


with its robust economy, proved to be an enticing oasis of opportunity when the rest of the nation was mired in the 1990-91 recession. Idaho proved especially attractive to Californians. The Golden State suffered its worst slowdown since the Great Depression in the early 1990s. For example, California lost 2.5% of its nonfarm jobs during the 1990 to 1992 period. Idaho nonfarm employment rose by 31,300 (8.1%) during this same time. A storm surge of migration hit the Gem State in the first half of the 1990s. In each of the three years from 1992 to 1994, net migration was over 20,000. This helped the state's population grow by about 3.0% in each of those years, nearly three times faster than the nation's population. The demands of the expanding population strained government resources. In response to these pressures, Idaho state and local government employment advanced over 3.5% annually during the first half of the decade. As the U.S. economy expanded in the second half of the 1990s, the economic gap between Idaho and other states narrowed. This caused net migration into Idaho to drop off. By the end of the decade, net migration per year was about half its mid-1990s peak This has caused Idaho state and local government employment growth to slow markedly. While cooling population growth has had an impact, other factors have also come into play. For example, an Idaho law that caps local government budgets has also limited government employment gains. In addition, last year's growth rate will also be impacted by a series break in the education-related employment data. The Idaho Department of Labor recently detected a data problem that inflated this sector's employment by 2,000 persons. In order to correct this, the Department of Labor reduced employment by 2,000 beginning in January 2000. As a result of this adjustment, the decline from the last quarter of 1999 to the first quarter of 2000 is exaggerated, and the 1999 to 2000 year-to-year growth is underestimated. The trends that shaped the second half of the 1990s are expected to continue into the next few years. <u>Idaho state and local government employment is forecast to increase 1.9% in 2001, 1.3% in 2002, 1.3% in 2003, and 1.3% in 2004.</u> Federal government employment in Idaho is largely driven by budget decisions made in Washington, D.C. The recent round of federal budget belt-tightening has caused the number of federal jobs in Idaho to trend downwards in the 1990s. This is expected to continue in through the next few years. <u>Specifically, the number of federal jobs in the Gem State should be 13,648 in 2000, 13,065 in 2001, 13,150 in 2002, 13,137 in 2003, and 13,146 in 2004.</u> The large drop in 2001 reflects the layoff of temporary U.S. Census workers hired in 2000.

Services-Producing Industries: The services-producing sector is the state's largest employer. It alone accounts for about 80% all nonfarm jobs. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even when government employment is taken out of the services-producing mix, the remainder still accounts for over 60% of all jobs. Not only is this sector diverse, it is also dynamic. For example, it has benefited recently from the growth of call centers in the state. The call centers are involved with catalog sales, help lines, telemarketing, customer services, and market research. Call centers also encompass a wide variety of business activities. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. According to Idaho Department of Labor estimates, call centers employed 10,600 persons in July 2000. One of the most pleasing aspects of this



growth is how diverse it has been. The GTE order-processing center is in North Idaho, the Carlson Leisure Group call center is in the Treasure Valley, and Convergys Call Center is in Bannock County. Recently, Alaska Air announced plans to open a call center in Boise that will employ 200. Tele-Servicing Innovations will open a call center in Burley that will employ 100 persons. Another source of growth has been business services. Part of its growth reflects contract employees working at manufacturing firms. Although they perform manufacturing tasks, they are employed by employment agencies and are counted as business services employees. Overall, services-producing employment is projected to increase 2.5% in 2001, 2.5% in 2002, 2.4% in 2003, and 2.2% in 2004.



Construction: Idaho's economy will miss the boost provided by the construction sector over most of the state's long expansion. Nonfarm employment in the Gem State has expanded steadily since 1987. Construction employment has increased since 1988. Initially, nonresidential building fueled this sector's growth. However, as the trickle of net migration turned into a flood, residential construction employment surged. In 1988, two years into the state's economic expansion, the number of Idaho housing starts was just 3,334 units. But six years later, in 1996, the number of housing starts had more than tripled to 12,766 units. From 1988 to 1994, the number of construction jobs in Idaho more than doubled from 14,205 to 28,983. Looked at in another way, Idaho housing starts advanced an incredible 25.1% annually over this period while employed increased a whopping 12.6% per year. The robust housing growth reflected the industry's attempt to catch up to demand. Fortunately, Idaho never developed a serious housing inventory overhang, making the transition from boom to slower times much less painful than usual for this notoriously cyclical industry. For example, housing starts dropped almost 27% from their high in 1994 to 1995. Despite this sharp decline, construction employment, thanks in large part to the strong nonresidential sector, managed to expand 2.2% that year. Since the housing sector's go-go years ended in 1994, Idaho housing starts have averaged between 8,500 and 11,000 units per year. While this is below 1994's peak, it is still well above its early 1980's level. It appears that Idaho construction employment has made a relatively painless transition from its boom. Although housing starts have yet to repeat 1994's record performance, construction employment has expanded in every year since then, albeit at a slower pace than in the recent past. The current projection shows Idaho construction employment will level off at about 36,000 over the forecast period. From 2000 to 2004, Idaho housing starts are expected to slowly decline from 11,054 units to 9,899 units.